DRAFT
ANNUAL REPORT
2008-9

MTUBATUBA LOCAL MUNICIPALITY

1. INTRODUCTION AND OVERVIEW

1.1. MAYOR/SPEAKER'S FOREWORD

CLLR. C.G. SWARTZ

This annual report of the current Council is a culmination of the foundation of a developmental municipality that has been established at Mtubatuba Local Municipality. Our key focus as a municipality has been to continually strive to meet the ever increasing needs of our people.

With the limited resources at our disposal, our focus has been on achieving improved service delivery, growth and overall transformation of the lives of people of Mtubatuba through our commitment to serve.

Our municipality together with its community is committed to continue to carry the torch that will guide our municipality and our communities into the future and to remind ourselves that we are a developmental local government committed to working with citizens and groups within the community to find sustainable ways to meet the social, economic, material needs and improve on the quality of life of our people. We continually work to ensure that as a municipality we are appropriately structured and capacitated to meet the demands of our communities in a sustainable and equitable manner.

Our resolve is to continue to build ourselves towards a sustainable and viable municipality. The political and administrative leadership of this municipality understands the principle and the limited resources with which to address the ever increasing needs of our people and the municipality will continue to prioritise those areas of our mandate that will promote economic growth, expand our infrastructure and service to those that have not had access to these services, ensure that our priorities are pro – poor, are designed to alleviate poverty, unemployment and promote the social and community upliftment and to address the scourge of diseases and crime.

Guided by our community needs and the aims and objectives of the government's 5 Year Local Government Strategic Agenda, Mtubatuba Municipality's Council and its committees are politically accountable to the decisions made in their name and we are glad to say as a municipality we have made our contributions and decisions towards the achievements and progress made in the followings areas:

- Governance and democracy
- Local Economic development
- Institutional Transformation
- Infrastructure and Service delivery
- Financial management
- Community and Social Development

- 240 households have an access to free basic electricity service and Eskom has committed to roll out 20 to 25 household per month
- To close the Municipality received a record award the CLEANEST TOWN AWARD

We will continue to make strides towards achieving a better life for our citizens and communities.

I would like to acknowledge and thank the citizens, stakeholders and the constituencies of Mtubatuba for their cooperation with the municipality towards the achievement of the municipal goals. We would like to pay our gratitude to the political parties, workers, civil society and other government departments for their cooperation and participation in the achievement of our goals for the 2008/9 financial year and their continued support for the future.

Our Municipality now looks forward to the future with greater sense of direction, and anticipates making significant strides towards the achievement of our vision of improving the quality of life of all our citizens. This will be achieved through the strengthening and capacitating of our institution to deliver services to our communities. The strengthening of our Integrated Development Planning, our budgeting processes, performance management, and public participation in these priorities will ensure that we address the needs and priorities of our community. We would like to see more of our people participating in these processes and we look forward to Council taking a closer working partnership with all government departments, nongovernmental organisations, business, labour and other stakeholders.

Cllr. C.G. Swartz

Honourable Mayor

BASIC SERVICES

Water

The inability of the bulk water supply to service the whole municipal area was first noted in 2000. Mtubatuba faces a critical shortage of portable water. Water Services is the function of the District (UMkhanyakude)

Refuse

Refuse removal in MTUBATUBA is mostly undertaken by the Municipality with residents getting weekly or other municipal refuse collection service. There are also a high number of residents who are responsible for their own refuse disposal (rural areas). It is therefore imperative to ensure that municipal services are extended to reach those areas which do not have access.

Sanitation

Sanitation is the delivery function allocated to UMkhanyakude District Municipality

The number of households in MTUBATUBA uses the flush toilet system. This is followed by the high number of people still without sanitation. The use of Pit Latrines is still a concern in most areas of the Municipality.

- Effective intergovernmental relations

KPA 2: Basic Service delivery and Infrastructure Investment

- A clean, safe and healthy environment
- Universal access to quality, affordable and reliable municipal services (e.g., water, sanitation, electricity, refuse removal, transportation)
- Regular investment in Infrastructure and productive equipment

KPA 3: Local economic development

- Thriving and vibrant local economy and neighbourhoods
- Development of an employable, educated and skilled citizenry
- Facilitation of job creation and access to business opportunities
- Continuous and positive interactions with all key economic anchors and actors

KPA 4: Municipal Transformation and Institutional development

- An IDP that is the expression of state-wide planning as a whole
- A balanced infrastructure investment and sustainable economic development programme that is part of the IDP

KPA 5: Financial Viability and Management

- Sound financial management systems
- Development of annual and medium term outlook on revenue and expenditure plans and targets
- Reduced expenditure on grant transfers, timely and accurate accounting of public resources and effective anti-corruption measures

Corporate Services Priorities

- Record keeping / management
- Auxiliary services
- Customer care
- Property admin

Governance and Democracy Priorities

- Instituting a new effective council and structures
- Good governance
- Inter governmental Relations
- Ensure effective functioning of ward Committees

Local Economic Development Priorities

- LED Strategy
- SMME Development
- Agriculture
- Tourism
- Public Private Partnerships (PPP)

Infrastructure and Service Priorities

- Water (Bulk Supply)
- Sanitation
- Streets
- Storm water
- Electricity
- Roads
- Land Use
- Sanitation

POLITICAL GOVERNANCE

The Mtubatuba Council is under the leadership of the Mayor Cllr C.G. Swartz. The Council consists of 7 Councillors from the IFP, 3 Councillors from the ANC.

To set the right priorities, take good, sound and viable decisions, strengthen accountability and to engage in constructive and interactions with public and local institutions, Mtubatuba Local Municipality has set out to ensure an effective governance framework and structure.

A number of initiatives have been set out by the municipality to ensure that the governance interventions that cover issues around political governance through the effective functioning of council and its support structures, Institutional transformation of the municipality, effective financial management, public participation and consultation and relationship building with stakeholders from pillars of the governance processes that would deepen democracy and governance in the municipality.

An overview of Service Delivery Backlogs

Development backlogs

The key challenges facing the development of MTUBATUBA are related to the general under-development of the area which is characterised by

- Lack of investment and economic development of MTUBATUBA
- Poverty, underdevelopment and unemployment
- HIV/AIDS
- Lack of sustainable water supply
- Service delivery backlogs
- Inadequate skills and capacity to deal with issues of development

Service Delivery Challenges

- Bulk Water Supply problems remain one of the biggest service delivery issues in Mtubatuba Municipality.

- Poverty and unemployment- the high numbers of people unemployed in Mtubatuba and the lack of economic opportunity to create jobs further compounds the poverty problems at Mtubatuba.

- HIV/AIDS the effects of HIV and AIDS - the devastating effects of HIVAIDS compounded by poverty and illiteracy can be visibly observed in the municipal areas.

- Youth Development – The levels of youth development are a measure of how nation is serious about its future.

2. FUNCTIONAL AREA SERVICE DELIVERY REPORTING

2.1. POLITICAL GOVERNANCE

POLITICAL GOVERNANCE

THE ROLE OF THE SPEAKER' OFFICE

The Council's Speaker performs his role as the elected chairperson of the municipal council as stipulated in terms of section 36 of the Municipal Structures Act 117 of 1998. Having the primary responsibility of presiding over council meetings his duties entail the smooth conduct of Council plenary business. The speaker functions also as the promoter of good governance and participatory democracy. The role of the Speaker extends to the establishment and election of ward committees in each of the 5 Wards and ensures ongoing effective functioning. The speaker also ensures public participation and ongoing consultation and involvement of the public in the affairs of the municipality. The Speaker plays an important role in determining the capacity and training needs of councillors.

PERFORMANCE 2008/9

A total of 10 elected Councillors govern the municipality and the composition of the council is as follows

- 10 Councillors in total
- 7 Councillors from the IFP
- 3 from the ANC

The Speaker chairs the Council meetings to ensure good conduct among councillors and that council business is run in a democratic manner;

Further, the governance process of the municipality is exercised through the established Section 79 and to be established Section 80 committees. The following committees exist

COUNCIL

The Council is the legislative arm of the MTUBATUBA local municipality and comprises of 10 Councillors. The Council remains committed to the fulfilment of its mandate of taking decisions in an open, fair, transparent and democratic manner. This involves the taking of decisions around policies, procedures, systems, integrated development plans(IDP) , by-laws , budgets and other strategic issues that have been recommended by the various Section 79 and 80 committees. The council meetings were marked by vibrancy, animated and healthy debates which is an indication of the commitment to good governance and democracy

WARD COMMITTEES

MTUBATUBA has 5 Wards; there are new Ward Committees in all the 5 Wards. The Ward committee members together with the Ward Councillors are being capacitated in ensuring that their mandates are properly and adequately achieved. There has been a problem in the functioning of Ward Committees and it is hoped that the new Ward Committees will improve their functioning.

- 4 Ward committee meeting took place in each ward

COUNCIL RULES, PROCEDURES AND POLICIES

The MTUBATUBA Local Municipal Council developed the Standing Rules and Orders by-law which seeks to promote good governance and participatory democracy since 2000.

COUNCILLOR SUPPORT, TRAINING AND CAPACITATION

Councillors of MTUBATUBA Local Municipality are receiving training and capacitating in various areas of Municipal function and development through the Councillor Induction Training

Employment Equity

- The Municipality submitted its Employment Equity plan and Report to the Department of Labour.
- The municipality continually looks at meeting its Employment Equity requirements by consistently exploring opportunities to address equity through recruitment of people from designated groups

Skills Development

The Skills Development process in the municipality is being undertaken with the following results reported for the 2008-9 financial year

- The Skills Development Plan of the municipality was reviewed and submitted to the Department of Labour
- There has been ongoing training and development of both Employees and Councillors in the municipality. Most employees in the municipality have attended courses, workshops and programmes as organised by the individual Departments.

Implementation of the Performance Management System

The process was undertaken with the following results achieved:

- Training of EXCO on Performance Management
- Training of all heads of Departments
- The Development and Adoption of the Municipal Scorecard by Council
- The Implementation of the Municipal Performance Management System and Signing of Performance contracts by Municipal Manager and Heads of Departments
- Section heads were trained on performance management. It was decided however that Section 57 managers have to familiarize themselves with the process first before the broader group could be incorporated
- Mid-term and end of year reports were done. Monthly meetings were held with MANCO
- Process Plan done and approved by Council.
- Training of Heads of Sections was conducted and it was agreed that they would enter into performance contracts in January 2010 to first allow HODs to acclimatise to the PMS process.

The performance of all Section 57 employees was assessed and recommendations for their performance were evaluated.

3.2. PERFORMANCE OF THE DEPARTMENT: INFRASTRUCTURE AND TECHNICAL SERVICES

The Director Technical Services: MR T.A. DLAMINI

Water Service Delivery highlights

Water service delivery remains one of the elusive challenges in the Mtubatuba municipality and this has brought to a halt some of the potential tourism and other investments in the municipality especially in the St. Lucia area. As water service delivery is a competence of the uMkhanyakude District Municipality the municipality has ensured raising this issue in the Municipal Managers Forum and the District Mayors Forum. Efforts have been made to have one on one meeting with the District.

The water service delivery can be highlighted by the following achievement by the municipality

- One meeting was held with the district in an effort to coordinate water service delivery in the municipality with the District.
- Statistics on water service provision backlogs assessment for households were provided in the IDP.

Further effort is needed to address the provision of water to the communities of Mtubatuba

Basic Electricity and Energy highlights

Highlights around electricity service delivery would include

- In an effort to facilitate community access to electricity services 10 household connections were achieved and 10 compliance certificates were received.
- Streetlights were maintained at Mtubatuba, Riverview and Nordale areas.
- 792 households have access to electricity in Nordale and Sub contractor Baobab was appointed to install street lights
- 240 households have an access to free basic electricity service and Eskom has committed to roll out 20 to 25 household per month.

MIG Projects Implementation

The MIG Projects implementation in the municipality has resulted in the following projects implemented.

3.3. PERFORMANCE OF THE COMMUNITY AND SOCIAL DEVELOPMENT SERVICES DEPARTMENT

DIRECTOR: Mr. A.M DHLOMO

The department objective: To provide an integrated community development programmes incorporating, Youth development, Disaster Management, Library services, Parks Sports and recreation, HIV/AIDS, Cemeteries, Environmental and Primary healthcare, Safety and security

PERFORMANCE REPORT

Waste Management

- There has been continued servicing of the municipality in terms of waste removal services
- Plans are underway to identify and licence municipal dumping sites
- There has been 100% compliance in the maintenance of dumpsites
- Each dump site is maintained 3 times a week.
- Dump sites maintained Mondays, Tuesdays and Fridays
- The indigent register is in a final stage for provision of free basic waste removal services

HIV/AIDS

- Not much was achieved by the municipality around HIV awareness and other programmes due to lack if internal capacity to drive HIV/AIDS programmes
- More than 6 LAC meeting, 3 workshops and 7 awareness campaigns were consolidated into one campaign

Community Development

- Not much was achieved in the area of community development by the municipality due to lack of capacity.

Sports, Arts and Culture

- The MTUBATUBA Games were held with the full participation of MTUBATUBA The games started at Ward level and played to reach finals at Local Municipality Level to form the Local Municipality Squads.

Youth Development

Youth programmes were centred on the areas of Sports, Arts, culture, and skills development

Environmental Health Services

- Water pollution prevention programmes were run in conjunction with Department of health

- The municipality continually looks at meeting its Employment Equity requirements by consistently exploring opportunities to address equity through recruitment of people from designated groups

Skills Development

The Skills Development process in the municipality is being undertaken with the following results reported for the 2008-9 financial year

- Five SETA approved trainings have been conducted for employees
- Capacity building and training of councillors included 5 Councillors training on leadership has been conducted in collaboration with the District
- All Regional SDF Forum as well as District SDF Forum meetings are attended. The recommendations or projects implemented a skills audit for employees and councillors was done in April to May 2007
- Workplace Skills Plan compiled and submitted to LGSETA in time and an acknowledgement letter from them has been received.
- There has been ongoing training and development of both Employees and Councillors in the municipality. Most employees in the municipality have attended courses, workshops and programmes as organised by the individual Departments.

Labour Relations Management

The municipality of MTUBATUBA has achieved the following in the arena of Labour relations management.

- Most of the complaints and grievances of employees have been resolved internally
- LLF meetings are scheduled to be held monthly but with members consensus it was agreed that they will be held according to the need.
- There has been full compliance with Labour legislation and procedures by the Municipality

Implementation of the Performance Management System

The process was undertaken with the following results achieved:

- The Municipal Scorecard and Individual Scorecards were developed and signed by the Heads of Departments
- Performance Contracts for Heads of Departments and the Municipal manager were developed and signed with them
- Each Section 57 employee has personal file where all performance management information is kept

3.5. PERFORMANCE OF THE FINANCIAL SERVICES DEPARTMENT

CHIEF FINANCIAL OFFICER: MR N.T, DLUDLA

The finance department has always strived to performance in their mandate and obligations as stipulated in the MFMA and compliance with all requirements has been consciously undertaken by the municipality. The following achievements can be highlighted in the performance of the municipality on financial management

MUNICIPAL FINANCIAL VIABILITY AND SUSTAINABILITY PERFORMANCE HIGHLIGHTS, CHALLENGES AND REMEDIAL ACTION

The performance of the Municipality with regard to municipal financial viability and sustainability is outlined below:

The Municipality has a multi-year budgeting cycle that clearly reflects goals for the next three years, in line with the IDP. To ensure integration between the IDP and the Budget, the Municipality develops an integrated IDP and Budget Process Plan, which is adopted by Council annually. This process takes into account stakeholder consultation, both internally and externally, starting with the identification of ward priorities.

Financial reports are submitted timely; these include the Section 71reports, which are submitted within ten working days of the end of each month as well as the annual financial statements, which must be submitted by 31 August annually.

With regard to supply chain management, the Council has a Supply Chain Management Policy in place, which is reviewed annually. Reports emanating from the supply chain process are reported regularly to Council for oversight. Other key financial related policies include the Indigent Policy, Credit Control, Debt collection and by-laws and Customer Care Policy, which has contributed to the improvement of the revenue collection and the Cash Management and Investment Policy.

The Municipality has improved its financial management capacity among the various directorates by ensuring regular reporting on financial matters. The intervention to monitor expenditure was at the administrative level, led by the Municipal Manager and all Director Engagements; at political level, through oversight by ExCo and Council

4. REPORT OF THE AUDIT COMMITTEE TO THE MTUBATUBA MUNICIPALITY COUNCIL FOR THE YEAR ENDED 30 JUNE 2009

The Audit Committee of Mtubatuba Municipality has pleasure in submitting its final report to the Council of the Mtubatuba Municipality. This report is submitted in terms of the provisions of sections 121(3)(j), 166(2)(b) and 166(2)(c) of the Municipal Finance Management Act of 2003 ("the MFMA") and covers the financial year from 1 July 2008 to 30 June 2009.

Members

1. The following persons served as members of the Audit Committee for the year under review:

DS Dlamini – Chairperson

MG Ntuli

Overview of activities

2. The Audit Committee had four formal meetings during the period covered by this report. These meetings were held on 29 July 2008, 7 November 2008, 23 January 2009, 23 April 2009 and 30 June 2009, respectively. The Audit Committee therefore complied with the provisions of section 166(4)(b) of the MFMA which requires the Audit Committee to meet at least four times per year.

3. The following matters were dealt with at these meetings:

- Risk Management within the municipality
- Fixed Asset Management
- Compliance with Legislation
- Annual Financial Statements
- Auditor General audit report
- At each of the four meetings, work done by the internal auditors was tabled, discussed;
- Attention was given to Council's regarding Performance Management System;

Concerns and recommendations

8. During the course of our meetings and discussions, a number of important issues came to light which the Audit Committee believes should be brought to Council's attention. These matters are dealt with below:

8.1 As per the annual financial statements of the municipality, it was noted that the balance of the Conditional Grants not spent was not cash backed. The monies received and not spent in respect of conditional grants are, therefore, not cash backed. Conditional grant funding has, therefore, been used to finance operating expenditure of the municipality and this expenditure is considered to be unauthorised expenditure incurred by the municipality. Furthermore there is no separate identifiable bank account for unspent conditional grants

8.2 As reported previously, the Audit Committee remains concerned about the following:

8.2.1 **Internal financial controls and internal audits:** The delays in commencement of the internal audit and the planning process, as well as the internal audit budget has been a limiting factor on the scope and extent of the internal audit work performed. Delays during the audit and the non-production of documentation in certain cases by the municipality also limited the internal audit unit in executing its function.

8.2.2 Management has been requested to work with the internal audit unit to increase the frequency and coverage of audit. Regular internal audits will assist in addressing audit findings much earlier thus ensuring improved control environment and external audit outcomes.

8.2.3 **Risk management:** KZN Provincial Treasury conducted a risk assessment and submitted a report which was tabled at audit committee meeting held in April 2009. The audit committee has since requested Management to work with internal audit unit to use the report in preparation of internal audit plan. The internal Audit unit did not review Management's risk management processes. However the unit will provide the Municipality with a sample Risk Management Policy for consideration. The policy needs to be customised for the municipality with a clear implementation plan for it to be effective. The timing of risk assessment is a matter of concern (four months before year end); this does not leave the municipality with enough time to put in place the mitigation plan, the implementation plan, and the monitoring to ensure

8.3 Also reported previously, is the Audit Committee's concern at the slow rate at which outstanding audit queries are resolved. Unresolved audit findings are listed and carried forward from one meeting to next until those findings have been satisfactorily addressed by management. We are pleased to report that during the latter part of the financial year under review, a concerted effort was made to clear as many of the outstanding queries as possible.

8.4 The preparation of Council's annual financial statements is governed by various International Financial Reporting Standards, Generally Recognised Accounting Standards and Generally Accepted Municipal Accounting Standards. In addition, there are a number of financial reporting requirements issued by National Treasury which have to be complied with. Although Council took advantage of certain exemptions relating to compliance with some of these Standards for purposes of preparing the financial statements for the year ended 30 June 2009, full compliance with these Standards will be required for the year ended 30 June 2010. As a result, Council's Finance Department face a substantial compliance burden relating to the implementation of these financial reporting standards which will place severe strain on existing financial capacity. It is therefore crucial that Council acknowledge the importance of maintaining and improving its financial capacity to meet this future challenge.

Conclusion

9. The implementation and maintenance of proper systems of internal control, the prevention of fraud and error, the safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are Council's responsibility. The role of the audit committee is to monitor the efficiency of the procedures and mechanisms which Council has put in place in order to ensure that its policies and procedures are adhered to. We can report that, taking into account the exceptions noted above and based on the reports submitted to us, that our overall impression is that the systems and procedures implemented by council are operating efficiently.

Yours faithfully

DS Dlamini

Chairman – Audit Committee

5.1 REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL THE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MTUBATUBA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mtubatuba Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 52 to 104

The accounting officer's responsibility for the financial statement

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements

Irregular expenditure

9. As disclosed in note 34.3 to the financial statements, irregular expenditure of R6 624 684 was incurred, as a result of grant funding being utilised to pay daily operating expenses.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

10. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

11. The municipality provided supplementary information in the Annexure E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information as set out on pages 105 to 126 does not form part of the financial statements and is presented as additional information. I have not audited these schedules; accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act (MFMA)

12. The Audit Committee met three times during the year and not four, as required by section 166(4).

Governance framework

13. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

No.	Matter	Y	N
	• The audit committee operates in accordance with approved, written terms of reference.	☐	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	☐	
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	☐	
	• The internal audit function operates in terms of an approved internal audit plan.	☐	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	☐	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	☐	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	☐	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	☐	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	☐	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	☐	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	☐	
14.	SCOPA/Oversight resolutions have been substantially implemented.	☐	

17. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

18. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
19. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

21. The Integrated Development Plan (IDP) of the municipality did not include all measurable priorities / objectives and performance targets, as prescribed by section 41(1)(b) of the Municipal Systems Act (MSA).
22. The annual performance information report of the municipality did not contain measures taken or to be taken to improve on performance, as prescribed by section 46(1)(a)(iii) of the MSA.
23. The IDP of the municipality does not reflect performance targets, as prescribed by section 26(i) of the MSA.
24. The community were not notified within 14 days of the adoption of the IDP, as prescribed by section 25(4) of the MSA.
25. The municipality's organisational performance management system did not incorporate key performance indicators which measures the municipality's performance in terms of the development objectives and strategies as set out in the municipality's IDP, as prescribed by section 38 of the MSA.
26. No monitoring of performance and measure of reviews were performed for each development priorities and objectives against key performance indicators and targets, as prescribed by section 41(c) of the MSA.
27. The municipality's performance management system is not devised in such a way that it serves as an early warning indicator of underperformance as the Service Delivery and Budget Implementation Plan (SDBIP) was not updated

The following audit findings relate to the above criteria:

Inconsistently reported performance information

36. The IDP of the municipality contained development priorities, objectives and key performance indicators that were inconsistent with those that were reflected in the SDBIP and the annual performance information report.

Reported performance information not relevant

37. The targets contained in the annual performance information report of the municipality were not:

- Specific in clearly identifying the nature and the required level of performance,
- Measurable in identifying the required performance.

Reported performance information not reliable

38. The measures and targets reported in the annual performance report of the municipality were either not supported by appropriate audit evidence provided to Audit, or in respect of the evidence provided to support the reported information did not adequately support the accuracy and completeness of the facts reflected in the report.

APPRECIATION

39. The assistance rendered by the staff of the Mtubatuba Municipality during the audit is sincerely appreciated.

5.2 PARTICULARS OF CORRECTIVE ACTIONS TO BE TAKEN IN RESPONSE TO ISSUES RAISED IN THE AUDIT REPORT FROM THE AUDITOR-GENERAL

AR Para. No.	REPORT FINDING	PROPOSED ACTIONS TO BE IMPLEMENTED	RESPONSIBLE PERSON	TARGET DATE	CURRENT STATUS/ PROGRESS
	Irregular expenditure - Unspent Conditional Grants - Per the statement of financial position, Unspent Conditional Grants reflect a balance of R 8 903 084 and the bank balances reflect a positive balance of R 3 486 736 of which R 1 208 336 pertains to the Housing Development Fund. The monies received and not spent in respect of conditional grants are, therefore not cash backed. Furthermore the conditional grant funding has, therefore, been used to finance operating expenditure of the municipality and this expenditure is considered to be irregular expenditure incurred by the municipality to an amount of R 6 624 864.	The municipality to utilise proceeds from sale of properties to finance the short fall on unspent conditional grants.	Municipal Manager / Chief Financial Officer	June 2010	Municipality has received water and electricity certificates that give rise to the sale. The proposed date of land sale is February 2009
	Planning: Internal Audit - The internal Audit reports were not finalised, approved and submitted to the audit committee at year end. The internal audit was not evaluated by the audit committee. Quarterly reports on performance were not submitted to the audit committee	The municipality has signed the Internal Audit Plan for 2009/2010 financial year that ensures that the Audit Scope is finalised before June 2010 except for the performance information that will be finalised by August 2010 and the its report issued in the same month	Municipal Manager / Chief Financial Officer	June 2010	Internal Audit report for the financial year ending June 2010 has been received. The audit plan for the financial year ending 30 June 2010 has been agreed with internal auditors together with the engagement letter.

		2009/10 IDP document (ANNEXURE)			
6.2	The IDP does not reflect the financial strategy that defines sound financial management and expenditure control and means of increasing revenues and external funding for the Municipality Compliance with the applicable legislation could therefore not be verified. (MSA Regulations Section 2(3)(c))	To develop the comprehensive financial strategy that defines sound financial management and revenue enhancement strategies.	Municipal Manager / Chief Financial Officer	April 2010	Quotations have been obtained to facilitate the development of financial strategy
6.3	**IDP** does not identify Key Performance Targets (MSA Section 26(i), 41)	To amend (ANNEX)the current document to clearly reflect the objectives and priorities	MM & IDP Manager	March 2010	The process of updating the annexure is ongoing.
6.4	Unavailability of evidence that there were copies or extracts from the IDP that were available for public inspection and summary of the plan that was published	To develop the register for documents to be issued to different stakeholders to comment on the IDP document as well as register of comments on the IDP for 2010/2011	MM & IDP Manager	31-May-10	No register is maintained for all documents that have been made available to the public
6.5	**IDP** priorities, objectives, indicators and targets are not incorporated in the Performance Management Framework; as such the PMS does not promote a culture of performance management amongst Municipal political structures, political office bearers and Councillors to administer its affairs in an economical, effective, efficient and accountable manner. (MSA Section38(a)(iii))	To amend (ANNEX)the current document to clearly reflect the objectives and priorities	MM & IDP Manager	March 2010	The process of developing the annexure document is ongoing
6.6	The Performance Management	To review the	MM & IDP Manager	March 2010	The PMS framework

					January 2010

ANNEXURE B: OTHER IMPORTANT MATTERS

8	**Purchases and Payables: VAT** - as per VAT returns, VAT does not reconcile with the amount in the General Ledger. A difference of R 737 516.69 in respect of VAT between the VAT returns amount and the general ledger amount has been identified.	The audit finding addressed during the audit. Confirmation from SARS has been received in respect of VAT owed to the municipality	Chief Financial Officer	2009/2010	Reconciliation of returns submitted to SARS is prepared.
9	Revenue: Rates (valuation Roll) - The valuation roll currently being used by the municipality was compiled on the 23rd of April 1997 and therefore the municipality has not met the five year plan	With effect from 01 July 2009 the municipality will be using the new valuation roll	CFO / MM	2009/2010	The New valuation roll is put to use with effect from 01 July 2009 and will be reviewed yearly with interim valuations being considered.
10	Employee Cost: Overtime - Employees are paid overtime more than 30% of the basic salary. Furthermore no explanations noted on the overtime forms as to why overtime in excess of 30% was worked by the employees.	Audit finding Implemented	Dir. Corporate Services	Ongoing	policy 10 hrs and 40 hours per week and per month respectively per week
11	Employee Cost: Overtime - Overtime was not authorised prior to overtime being worked. Furthermore employees had worked in excess of eight hours a day in contravention of the overtime policy and no reasons were noted on the overtime forms for the excessive time worked.	For the financial year 2009/10 all staff do not work more than 40 hrs per month.	Dir. Corporate Services	Ongoing	Overtime pre-authorisation form is being developed and is in use.

	drafting of the IDP and assign the responsibility of drafting the IDP to the Municipal Manager. (3) Evidence to support the submission of the IDP copy to MEC was not provided. (4) No mid-year budget and performance review and quarterly performance reviews by performance audit committee (documents presented to council) in terms of S72 of the MFMA were provided. (5) PMS framework does not provide for reporting to political structures, political office bearers, and the public and appropriate organs of state.				
ANNEXURE C: ADMINISTRATIVE MATTERS					
18	Revenue: Hall hire deposits - No register is maintained for hall hire revenue which amounted to R 174 250.00. Furthermore no records/register of deposits withheld is maintained where deposits are not refunded as a results of damages incurred to the hall during the hiring thereof. No reconciliations are prepared on a monthly basis, but prepared only at year end with no indication of there being a review between the register and the general ledger.	To introduce a hall hire deposit and hall hire refund books in a triplicate format. The introduction of a formal register that is informed by both application forms in the aforementioned point.	Chief Financial Officer	February 2010	The hall hire diary is in use, where all halls hire and deposits transactions are recorded.
19. LEAVE					
(a)	Leave forms for leave taken are not kept on file (personnel files)	HR officer to ensure that all leave taken are kept on individual employee personnel file	Dire. Corporate Service	February 2010	Leave taken is kept on file by HR officer

5.3. AUDITED ANNUAL FINANCIAL STATEMENTS

MTUBATUBA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2009

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 75, in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Dr. EMS Ntombela
Municipal Manager

31/08/2009
Date

MTUBATUBA MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009	200
		R	Restate
REVENUE			
Property rates	15	12 070 599	9 293 53
Service charges	16	3 388 927	2 781 32
Interest earned - cash deposits	17	240 486	474 02
Interest earned - outstanding debtors	17	143 975	-
Rental of facilities and equipment	18	276 059	173 70
Fines		243 145	140 40
Licences and permits		1 893 676	1 711 29
Government grants and subsidies	19	12 016 150	6 645 12
Other revenue	20	341 843	4 657 60
Other income:			
Gains on disposal of property, plant and equipment		85 051	-
Total Income		30 699 911	25 877 0
EXPENDITURE			
Employee related costs	21	14 645 435	12 197 3
Remuneration of Councillors	22	1 830 696	1 528 1
Depreciation and Amortisation	23	435 928	172 3
Repairs and maintenance		2 872 687	2 208 4
Interest paid	24	482 786	97 9
Contracted services		1 905 558	3 557 1
Grants and subsidies paid	25	1 028 250	-
General expenses	26	9 624 336	9 764 5
Total Expenditure		32 825 676	29 526 0
DEFICIT FOR THE YEAR		(2 125 765)	(3 648

Refer to Appendix E (1) for explanation of variances

MTUBATUBA MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009	2008 Restate
		R	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		34 201 181	25 912 643
Cash paid to suppliers and employees		(31 409 170)	(26 415 225
Cash generated from operations	29	2 792 011	(502 582
Interest received		384 461	474 023
Interest paid		(482 786)	(97 978
NET CASH FROM OPERATING ACTIVITIES		2 693 686	(126 537
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(2 284 702)	(8 491 073
Call Investment Deposits		(1 694 667)	5 285 469
Proceeds on disposal of PPE		85 056	-
NET CASH FROM INVESTING ACTIVITIES		(3 894 313)	(3 205 604
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised		-	3 005 000
Loans repaid		(161 958)	(312 688
NET CASH FROM FINANCING ACTIVITIES		(161 958)	2 692 312
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1 362 585)	(639 829
		(1 362 585)	(639 829
Cash and cash equivalents at the beginning of the year		844 244	1 484 073
Cash and cash equivalents at the end of the year	30	(518 341)	844 244

MTUBATUBA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. BASIS OF PRESENTATION (continued)

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the year ended 30 June 2008 the municipality complied with the three effective GRAP standards, the eight effective GAMAP standards, all relevant GAAP Standards and all relevant exemptions as set out in Government Gazette 30013, as at that date. For the year ended 30 June 2009 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the change:
(a) is required by a Standard of GRAP; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the performance or cash flow.

1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2.1. Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1. 2.2. Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management.

1. 2.3. Impairment of Financial Assets

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1. 2.4 Useful lives of Property, Plant and Equipment

As described in Accounting Policies 3.3, 4 & 5 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

3 PROPERTY, PLANT AND EQUIPMENT

3 .1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plan and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3 .2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, except for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are subsequently carried at a revalued amount, based on periodic valuations by external independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are done every three to five years when necessary. Any accumulated depreciation at the date of revaluation are eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. An increase in the carrying amount of an asset as a result of a revalutation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.Increases in the carrying amount of assets arising on revaluation are credited directly to a revaluation surplus. However the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Decreases in the carrying amount arising on revaluation are recognised directly in surplus or deficit. However the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation surplus to accumulated surplus or deficit.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

MTUBATUBA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

3 PROPERTY, PLANT AND EQUIPMENT (continued)

3 .9.1 Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

.9.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

MTUBATUBA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

4. .4 Transitional Provisions

Costs incurred on intangible assets were expensed and not capitalised in the previous financial year as required by IAS 38 as this requirement was exempted in terms of General Notice 522 of 2007. Accounted for all costs incurred that meet the intangible asset definition and recognition requirements as intangible assets for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

5 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities*.

5 1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors (see note 38.1, 38.2, 38.5, 38.6)
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with IAS 39.09 the *Financial Assets* of the municipality are classified as follows into the four categories allowed by this standard:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits - Call	Held-to-maturity investments
Bank Balances and Cash	Available for sale investments
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

5 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 38.1, 38.2, 38.5, 38.6)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

(i) Fair value through profit or loss; or
(ii) Other financial liabilities.

MTUBATUBA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

FINANCIAL INSTRUMENTS (continued)

5 4 Impairment of Financial Assets (continued)

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-Sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

5 5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

5 6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

5 7 Transitional Provisions

Financial Assets and Liabilities and the information relating thereto were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of the new IAS 32 and IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Financial Assets and Liabilities and the information relating thereto are presented and disclosed for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of the new version of IAS 32 and IFRS 7 and GRAP 3.

Financial instruments were initially measured at cost and not at fair value in the previous financial year as required by IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 as this requirement was exempted in terms of General Notice 522 of 2007. Financial instruments are now initially measured at fair value for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of IAS 39.43, IAS 39 AG.64, IAS 39 AG.65, IAS 39 AG.79, SAICA Circular 9 and GRAP 3.

6. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 38 to the annual financial statements.

7. 2. 7 **Rentals**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

7 3 **Revenue from Non-exchange Transactions**

7 3. 1 **Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

7 3. 2 **Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

7 3. 3 **Public contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

7 3. 4 **Other Donations and Contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

7 3. 5 **Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

8. GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Accounted for government grants and receipts in the previous financial year in accordance with the requirements of IAS 20.24 and .26, GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – .46, as appropriate, and not in accordance with the requirements of the entire IAS 20 as these requirements, other than IAS 20.24 and .26, were exempted in terms of General Notice 522 of 2007. Accounted for government grants and receipts for the year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GAMAP 9.42 - .46 and ASB Directives 4.

9. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

11. LEASES

11. 1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

11. 2 Transitional Provisions

Although the recognition of operating lease payments / receipts on a straight-line basis in accordance with the requirements of IAS 17 has been exempted in the previous financial year in terms of General Notice 522 of 2007 (provided that the municipality recognised the lease amounts on the basis of the cash flows in the lease agreement), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the recognition of operating lease payments / receipts on a straight-line basis in the previous financial year. Continued to recognise operating lease payments / receipts on a straight-line basis for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 13 and ASB Directive 4.

12 VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the cash basis.

13. CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

14. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

MTUBATUBA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. GENERAL INFORMATION

The municipality is a local government institution in Mtubatuba, KwaZulu-Natal. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Constitution.

2. HOUSING DEVELOPMENT FUND

	2009 R	2008 R
Balance at beginning of the year	1 142 458	1 076 003
Interest Received	65 878	66 455
Total Housing Development Fund	1 208 336	1 142 458

Analysis of the composition of the Housing Development Fund:

	2009 R	2008 R
Housing Development Fund	1 208 336	1 142 458
Unappropriated Surplus	1 208 336	1 142 458
Loans extinguished by Government on 1 April 1998		

The Housing Development Fund is represented by the following assets and liabilities:

	2009 R	2008 R
Bank and cash	1 208 336	1 142 458
Total Housing Development Fund Assets and Liabilities	1 208 336	1 142 458

The Housing Development Fund contain all proceeds from housing developments and interest on the investment of these monies. Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

3. ACCUMULATED SURPLUS

The following internal funds and reserves are ring-fenced within the Accumulated Surplus.

	2009 R	2008 R
Capitalisation reserve	18 369 574	18 369 574
Accumulated surplus/(deficit) due to the results of operations	4 002 259	6 082 428
Government Grant Reserve	3 600 770	3 600 770
Total Accumulated Surplus	25 972 603	28 052 772

The Capital Replacement Reserve is a reserve to finance future capital expenditure.

The Capitalisation Reserve equals the carrying value of the items of property, plant and equipment from the former legislated funds. The Capitalisation reserves ensures consumer equity and is not backed by cash.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

5. POST RETIREMENT MEDICAL AID BENEFIT LIABILITY (Continued)

The future service cost for the ensuing year is established to be R 123,691, whereas the interest-cost for the next year is estimated to be R 157,728 (2008: R 107,911 and R 166,597 respectively).

	2009 R	2008 R
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount rate	9.13 %	8.30 %
Health Care Cost Inflation Rate	7.80 %	6.72 %
Net Effective Discount Rate	1.24 %	1.48 %
Expected Retirement Age - Females	65	65
Expected Retirement Age - Males	65	65
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	1 757 265	1 568 830
Fair value of plan assets	-	-
Unfunded accrued liability	1 757 265	1 568 830
Unrecognised past service cost	-	-
Unrecognised actuarial losses	-	-
Present value of unfunded obligations	-	-
Benefit Liability	1 757 265	1 568 830
The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	107 911	81 485
Interest cost	166 597	108 674
Total included in Employee Related Costs	274 508	190 159
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	1 568 803	1 333 160
Current service cost	107 911	81 485
Interest cost	166 597	108 647
Expected employer benefits	(45 869)	(49 776)
Actuarial (gain)/loss on the obligation	(40 204)	95 287
Balance at end of year .	1 757 238	1 568 803

The effect of a 1 % movement in the assumed rate of health care cost inflation is as follows:

	2009 R	2008 R
Increase		
Effect on the aggregate of the current service cost and the interest cost	331 500	
Effect on the defined benefit obligation	2 088 738	1 568 803
Decrease		
Effect on the aggregate of the current service cost and the interest cost	229 500	
Effect on the defined benefit obligation	1 986 738	1 568 803

MTUBATUBA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Retentions refer to construction contracts.

	2009 R	2008 Restated R
8. UNSPENT CONDITIONAL GRANTS AND RECEIPTS	8 903 084	3 719 352
DISASTER CLAIM LOW COST	150 000	150 000
M.A.P. CONTROL	-	-
I.D.P. REVIEW	61 761	154 860
P.M.S.	188 089	392 991
LUMS	103 439	257 000
G.I.S	-	70 000
FINANCE MANAGEMENT (FMG)	1 031 891	655 749
LIBRARY SERVICE GRANT	-	139 561
E LEARNING	-	15 945
PROPERTY RATES ACT	-	298 153
M.F.M.A. 45000+100000	-	145 000
MSIG WARD COMMITEES	142 750	-
MUN.DEVELOPMENT PLANNING CAPACITY	27 915	100 000
UMKHANYAKUDE WATER/ESCOM	423 524	432 100
MUNICIPAL INFRUSTR.GRANT	3 734 508	-
GIJIMA KWA ZULU NATAL IMPLIMENTATION PLAN	9 464	25 056
GIJIMA KZN TOURISM STRATEGY	-	7 180
MSIG MUNICIPAL SUPPORT	55 148	734 000
MTB LIBRARY COMP.ASSIST	(25 405)	141 957
CORRIDOR DEV. FUNDING	3 000 000	-
DBSA (NOW SUSPENSE ACC)	-	-
Total Conditional Grants and Receipts	8 903 084	3 719 352

See Note 20 for reconciliation of grants by other spheres of government.

	2009	2008
	R	R

10. PROPERTY, PLANT AND EQUIPMENT

30 June 2009

Reconciliation of Carrying Value	Land and Buildings	Infra-structure	Community	Heritage	Total carried forward
	R	R	R	R	R
Carrying values at 1 July 2008	21 220 498	1 265 955	2 024 178	875 001	25 385 632
Cost	21 220 498	1 265 955	2 024 178	875 001	25 385 632
Correction of error	-	-	-	-	-
Revaluation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
- Cost	-	-	-	-	-
- Correction of error	-	-	-	-	-
- Revaluation	-	-	-	-	-
Acquisitions	379 021	1 632 582	45 311	-	2 066 914
Reallocation	(1 200 583)	2 993 158	20 143	-	1 812 719
Borrowing Costs Capitalised	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-
Depreciation	-	-	-	-	-
- based on cost	-	-	-	-	-
- based on revaluation	-	-	-	-	-
Carrying value of disposals	-	-	-	-	-
Cost/revaluation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Impairment losses	-	-	-	-	-
Transferred to disposal group classified as held for sale	-	-	-	-	-
Other movements	-	-	-	-	-
Carrying values at 30 June 2009	20 398 936	5 891 695	2 089 633	875 001	29 255 265
Cost	20 398 936	5 922 798	2 089 633	875 001	29 286 368
Correction of error	-	-	-	-	-
Revaluation	-	-	-	-	-
Accumulated depreciation	-	(31 103)	-	-	(31 103)
- Cost	-	(31 103)	-	-	(31 103)
- Correction of error	-	-	-	-	-
- Revaluation	-	-	-	-	-

MTUBATUBA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2008

Reconciliation of Carrying Value	Land and Buildings R	Infra-structure R	Community R	Heritage R	Total carried forward R
Carrying values at 1 July 2007	**17 448 500**	-	**1 089 826**	**875 001**	**19 413 327**
Cost	17 448 500	-	1 306 979	875 001	19 630 480
Correction of error	-	-	(217 153)	-	(217 153)
Revaluation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
- Cost	-	-	-	-	-
- Correction of error	-	-	-	-	-
- Revaluation	-	-	-	-	-
Acquisitions	3 771 998	1 265 955	934 352	-	5 972 305
Reallocation	-			-	-
Increases/decreases in revaluation	-	-	-	-	-
Depreciation	-	-	-	-	-
- based on cost	-	-	-	-	-
- based on revaluation	-	-	-	-	-
Carrying value of disposals	-	-	-	-	-
Cost/revaluation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Impairment losses	-	-	-	-	-
Other movements	-	-	-	-	-
Carrying values at 30 June 2008	**21 220 498**	**1 265 955**	**2 024 178**	**875 001**	**25 385 632**
Cost	21 220 498	1 265 955	2 024 178	875 001	25 385 632
Correction of error	-	-	-	-	-
Revaluation	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
- Cost	-	-	-	-	-
- Correction of error	-	-	-	-	-
- Revaluation	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

11. CONSUMER DEBTORS

As at 30 June 2009	Gross Balances	Collective Provision for Impairment	Net Balances
	25 248 906	14 098 750	11 150 156
Service debtors			
Rates	20 874 550	11 858 184	9 016 366
Electricity	-		-
Security	566 347	310 810	255 537
Sewerage	-		-
Refuse Removal	3 808 009	1 929 756	1 878 253
Total	25 248 906	14 098 750	11 150 156

As at 30 June 2008 Restated	Gross Balances	Collective Provision for Impairment	Net Balances
	24 089 429	13 996 510	10 092 919
Service debtors			
Rates	20 225 354	11 755 944	8 469 410
Special ratings area	516 665	310 810	205 755
Sewerage	-		-
Refuse Removal	3 347 510	1 929 756	1 417 754
Total	24 089 429	13 996 510	10 092 919

The average credit period for consumer debtors is 30 days. No interest is charged on trade receivables for the first 30 days from the date of the invoice. Thereafter interest is charged at prime plus one per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of the consumer debtors.

Management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.
The fair value of Consumer Debtors were determined after considering the standard terms and conditions of agreements entered into between the municipality and consumer debtors as well as the current payment ratio's of the municipalities consumer debtors.

	2009 R	2008 R
11.1 Ageing of Consumer Debtors		
Rates: Ageing		
Current (0 - 30 days)	68 696	453 701
Past Due		
31 - 60 Days	875 473	362 991
61 - 90 Days	390 702	332 348
91 - 120 Days	332 044	297 549
121 and more	18 355 390	17 904 030
Total	20 022 305	19 350 617
Refuse Removal: Ageing		
Current (0 - 30 days)	88 349	86 480
Past Due		
31 - 60 Days	109 885	84 060
61 - 90 Days	89 197	75 546
91 - 120 Days	78 370	64 835
121 and more	3 389 544	2 865 512
Total	3 755 345	3 176 433
Special rates area: Ageing		
Current (0 - 30 days)	87 293	121 777
Past Due		
31 - 60 Days	46 859	36 766
61 - 90 Days	32 579	30 464
91 - 120 Days	27 302	21 501
121 and more	369 296	301 095
Total	563 328	511 603

12. OTHER DEBTORS

	2009 R	2008 Restated R
Eskom Deposit	75 422	74 022
Fuel Deposit	27 000	22 000
Wesbank	65 165	-
Sundry debtors	151 656	67 507
Total Other Debtors	319 243	163 529

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

The claims instituted against the municipality's insurance company are supported by valid insurance claims that are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

The average credit period for government grants and subsidies is dependant on the Government Department involved and the nature of claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality per allocations made in the Division of Revenue Act or based on agreements between the municipality and the relevant departments. Government grants and Subsidies receivable are past due and not impaired as management have no concerns over the credit quality of these assets

The average credit period for other debtors is 30 days. No interest is charged on trade receivables for the first 30 days from the date of the invoice. Thereafter interest is charged at prime plus one per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of the other debtors.

Management of the municipality is of the opinion that the carrying value of Other Debtors approximate their fair values.

The fair value of Other Debtors were determined after considering the standard terms and conditions of agreements entered into between the municipality and National/Provincial Departments as well as other sundry debtors. The payment ratios of other debtors were also taken into account for fair value determination.

The total amount of the provision for Impairment created is R 13,996,511 and the following loans and receivables are included therein:

	2009 R	2008 R
Consumer Debtors	14 098 750	13 996 510
Sundry Debtors	-	-
Total Allowance for Doubtful Debts on Other Debtors	14 098 750	13 996 510

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 R	2008 R
15. PROPERTY RATES		
Income		
Actual		
Residential, Commercial, Industrial, Rural and Other	12 070 599	9 293 537
Total Assessment Rates	12 070 599	9 293 537
Valuations	July 2009	July 2008
Actual		
Residential, Commercial, Industrial, Rural and Other	152 093 100	152 093 100
Total Valuations	152 093 100	152 093 100

Assessment Rates are levied on the value of land and improvements, which valuation must be performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations, consolidations and subdivisions.

The last valuation came into effect on 1 July 2003. A general valuation, which will be applied with effect 1 July 2009, is currently performed.

Rates are levied annually on property owners. Owners are allowed to pay the annual assessment in 12 monthly instalments, which are payable the last of day of the month. Interest is levied at the prime rate plus 1% on outstanding rates amounts

	2009 R	2008 R
16. SERVICE CHARGES REVENUE		
Refuse removal	2 418 143	1 939 384
Special rates	970 784	841 943
Total Service Charges	3 388 927	2 781 327

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

17. INTEREST EARNED		
External Investments:		
Cash Deposits	240 486	474 023
Outstanding Debtors	143 975	-
Total Interest Earned	384 461	474 023
18. RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Buildings	51 408	39 341
Rental Revenue from Halls	174 250	134 367
Rental Revenue from Other facilities	50 401	
Total Rental of Facilities and Equipment	276 059	173 708

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

19. GOVERNMENT GRANTS AND SUBSIDIES (continued)

	2009 R	2008 R
19.4 P.M.S.		
Balance unspent at beginning of year	392 991	265 000
Current year receipts		262 900
Conditions met - transferred to revenue	(204 902)	(134 909)
Conditions still to be met transferred to liabilities (see note 8)	188 089	392 991
19.5 LUMS		
Balance unspent at beginning of year	257 000	300 000
Current year receipts		3 600
Conditions met - transferred to revenue	(153 561)	(46 600)
Conditions still to be met transferred to liabilities (see note 8)	103 439	257 000
19.6 G.I.S.		
Balance unspent at beginning of year	70 000	70 000
Current year receipts		
Conditions met - transferred to revenue	(70 000)	
Conditions still to be met transferred to liabilities (see note 8)	-	70 000
19.7 Finance Management		
Balance unspent at beginning of year	655 749	948 022
Current year receipts	1 250 000	250 000
Conditions met - transferred to revenue	(873 858)	(542 273)
Conditions still to be met transferred to liabilities (see note 8)	1 031 891	655 749
19.8 Library service grant		
Balance unspent at beginning of year	139 561	646 255
Current year receipts		159 837
Conditions met - transferred to revenue	(139 561)	(666 531)
Conditions still to be met transferred to liabilities (see note 8)	-	139 561
19.9 E Learning		
Balance unspent at beginning of year	15 945	150 000
Current year receipts		
Conditions met - transferred to revenue	(15 945)	(134 055)
Conditions still to be met transferred to liabilities (see note 8)	-	15 945

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

19. GOVERNMENT GRANTS AND SUBSIDIES (continued)

	2009 R	2008 R
19.16 GUMA KZN implementation plan		
Balance unspent at beginning of year	25 056	-
Current year receipts	83 699	66 951
Conditions met - transferred to revenue	(99 291)	(41 895)
Conditions still to be met transferred to liabilities (see note 8)	9 464	25 056
19.17 GUMA KZN tourism strategy		
Balance unspent at beginning of year	7 180	-
Current year receipts	88 977	71 181
Conditions met - transferred to revenue	(96 157)	(64 001)
Conditions still to be met transferred to liabilities (see note 8)	-	7 180
19.18 MSIG municipal support		
Balance unspent at beginning of year	734 000	-
Current year receipts		734 000
Conditions met - transferred to revenue	(678 852)	
Conditions still to be met transferred to liabilities (see note 8)	55 148	734 000
19.19 MTB Library computer assistance		
Balance unspent at beginning of year	141 957	-
Current year receipts	-	177 800
Conditions met - transferred to revenue	(167 362)	(35 843)
Conditions still to be met transferred to liabilities (see note 8)	(25 405)	141 957
19.20 Corridor development funding		
Balance unspent at beginning of year	-	-
Current year receipts	3 000 000	-
Conditions met - transferred to revenue	-	-
Conditions still to be met transferred to liabilities (see note 8)	3 000 000	-

MTUBATUBA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

20. OTHER REVENUE

Included in other income is the following:-

	2009 R	2008 R
Building plan fees	28 453	60 285
Actuarial gain	32 829	-
Burial fees	122 667	101 163
Rates clearance certificates	2 571	76 589
Garden Ref	1 210	3 855
Sale of documents	31 254	4 872
Additional Councilor support	-	43 400
Search fees	5 281	3 317
Miscellaneous income	99 553	43 455
Rezoning income	500	-
Security St. Lucia	10 150	-
Other income	-	4 320 665
Total Other Income	334 468	4 667 602

The amounts disclosed above for Other income are in respect of services rendered, other than described in Notes 16 and 17, which are billed to or paid for by the users according to approved tariffs.

21. EMPLOYEE RELATED COSTS

	2009 R	2008 R
Employee related costs - Salaries and Wages	9 941 363	8 158 673
Employee related costs - Contributions for UIF, pensions and medical aids	1 726 644	1 560 682
Travel, motor car, accommodation, subsistence and other allowances	1 178 515	1 097 014
Housing benefits and allowances	31 309	23 433
Overtime payments	989 002	1 147 348
Contribution to Leave Gratuity	504 094	-
Contribution to provision for post- retirement medical aid benefits	274 508	190 159
Total Employee Related Costs	14 645 435	12 197 309

No advances were made to employees.

Remuneration of the Municipal Manager

	2009 R	2008 R
Annual Remuneration	406 441	487 062
Car Allowance	128 812	
Other	9 600	
Contributions to UIF, Medical and Pension Funds		
Total	544 853	487 062

Remuneration of the Chief Finance Officer

	2009 R	2008 R
Annual Remuneration	270 809	409 777
Car Allowance	87 539	
Other	8 000	
Contributions to UIF, Medical and Pension Funds		
Total	366 348	409 777

Remuneration of Individual Executive Directors

30 June 2009

	Corporate Services	Technical Services	Community Services
Annual Remuneration	325 147	325 132	270 809
Car Allowance	104 871	104 871	87 539
Other	9 600	9 600	8 000
Contributions to UIF, Medical and Pension Funds			
Total	439 618	439 603	366 348

	2009 R	2008 Restated R
26. GENERAL EXPENSES (continued)		
Postage	113 241	76 894
Printing & Stationary	243 059	202 242
Publicity and Advertising	169 933	145 274
Refuse Bags	51 412	32 639
Rental: Office Machines	42 076	206 328
Rental: Plant and vehicle	25 214	190 316
Small Tools	1 134	11 206
Subsistance & Travel	453 176	522 358
Telephone Costs	654 001	494 000
Town Planning	60 670	124 718
Training	32 228	53 208
Uniforms and protective Clothing	72 802	105 956
Bargaining Council	5 137	4 758
Skills Development Levy	88 931	97 993
UIF	92 609	85 688
WCA Insurance	90 000	94 885
Asset Disposal	9 999	-
Miscelanious recovery	49 581	-
Grants expenditure	5 060 263	2 020 254
Non-capitalised asset expenditure	9 561	-
Total General Expenses	9 606 269	9 764 539

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

27. CHANGE IN ACCOUNTING POLICY

The municipality adopted the exempted portions of the following International Accounting Standards for the first time during the financial year 2008/2009 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting Policy 1. These have been implemented as at 30 June 2009:

- GRAP 3 : Accounting policies, changes in accounting estimates and errors.
- IFRS 3 (AC 140) : Business combinations
- IFRS 5 (AC 142) : Non-current assets held for sale and discontinued operations
- IFRS 7 (AC 144) : Financial instruments: Disclosures
- IAS 39 (AC 133) : Financial instruments: Recognition and measurement

28. CORRECTION OF ERROR

During the 2007/2008 financial period a number of errors occurred, which are set out below:

28.1 *Reserves to accumulated surplus*

Since fund accounting is not allowed in terms of GRAP / GAMAP / GAAP, the municipality's internal funds and reserves should form part of the Accumulated Surplus and should not be disclosed, as in 2008, as separate reserves on the face of the Statement of Financial Position and Statement of Changes in Net Assets.

28.2 *Finance Leases*

In 2008 finance leased assets were expensed. Subsequently, more accurate information was obtained from the suppliers and the resulting effect on these assets, lease liabilities and expenditures were adjusted.

MTUBATUBA MUNICIPALITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

		2009 R	2008 R
ASSETS	28 046 748	1 168 803	29 215 551
Non-current assets	28 046 748	1 168 803	29 215 551
Property, plant and equipment	-		-
Investment property	-		-
Long-term receivables	-		-
Finance lease receivables			
	12 740 764	876 112	13 616 876
Current assets	-	-	-
Assets classified as held-for-sale	10 092 918		10 092 918
Consumer debtors	163 529		163 529
Other debtors	781 139	876 112	1 637 251
VAT	579 721	-	579 721
Call investment deposits	-		-
Current portion of long-term receivables	-		-
Current portion of finance lease receivables	1 143 457	-	1 143 457
Bank balances and cash			
	40 787 612	2 044 915	42 832 427
Total Assets			
	- 3 288 188	(360 800)	(3 648 988)
Surplus/(Deficit) for the year			

29. CASH GENERATED BY OPERATIONS

	2009 R	2008 R
	(2 125 765)	(3 648 985)
Deficit for the year		
Adjustment for:-	-	-
Previous years	433 542	172 398
Depreciation and Amortisation	(85 051)	-
Gain on disposal of property, plant and equipment	241 679	285 446
Post employment benefit movements - Non-cash	266 004	383 792
Increase/(Decrease) in provisions	(384 461)	(474 023)
Investment income	482 786	97 978
Interest paid		
	(1 171 266)	(3 183 394)
Operating surplus before working capital changes:		
	(1 057 237)	(1 782 175)
(Increase)/decrease in consumer debtors	(155 713)	318 466
(Increase)/decrease in other debtors	5 183 732	1 955 360
Increase/(Decrease) in unspent conditional grants and receipts	(210 925)	1 322 564
Increase/(Decrease) in the net finance lease liability	1 637 998	(135 818)
Increase/(Decrease) in creditors	(1 434 578)	984 415
(Increase)/Decrease in VAT		
	2 792 011	(502 562)
Cash generated by/(utilised in) operations		

30. CASH AND CASH EQUIVALENTS

	2009 R	2008 R
	(522 341)	843 245
Bank balances and cash	(1 730 688)	(299 212)
Overdraft	1 208 347	1 142 457
Call investment deposits	4 000	1 000
Petty Cash Advances		
	(518 341)	844 245
Total cash and cash equivalents		

31. NON-CASH INVESTING AND FINANCING TRANSACTIONS

The Municipality was not engaged in any transaction or event during the year under review involving non-cash investing and financing transactions.

32. FINANCING FACILITIES

Unsecured Bank Overdraft Facility, reviewed annually and payable at call:

	2009 R	2008 R
	(522 341)	-
- Amount used	(1 477 659)	(4 000 000)
- Amount unused		
	(2 000 000)	(4 000 000)

33. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

	2009 R	2008 R
	4 129 599	4 502 481
Long-term liabilities (see Note 4)	4 129 599	4 502 481
Used to finance property, plant and equipment - at cost		

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that the upcoming annual payment for long-term liabilities can be made.

MTUBATUBA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

36. CAPITAL COMMITMENTS

	2009 R	2008 R
Commitments in respect of capital expenditure:	1 458 014	1 904 352
- Approved and contracted for	1 219 653	1 479 000
Infrastructure	238 361	137 922
Community		287 430
Other		
	1 458 014	1 904 352
Total		
This expenditure will be financed from:	1 458 014	1 904 352
- Capital Replacement Reserve		
- Government Grants	1 458 014	1 904 352

37. FINANCIAL INSTRUMENTS

37.1 *Classification*

Financial Assets

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial asset	Classification	2009 R	2008 R
Consumer Debtors	Loans and receivables	9 016 366	8 469 410
Rates	Loans and receivables	255 537	205 755
Security	Loans and receivables	1 878 253	1 417 754
Refuse Removal			
Other Debtors	Loans and receivables	-	-
Other Debtors	Loans and receivables	151 656	67 507
Sundry debtors			
Bank Balances and Cash	Loans and receivables	(522 341)	843 245
Bank Balances	Loans and receivables	4 000	1 000
Cash Floats and Advances	Loans and receivables	1 208 347	1 142 457
Other Cash Equivalents		11 991 818	12 147 128
Total Financial Assets			

Financial liabilities

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial liability	Classification	2009 R	2008 R
Long-term Liabilities	Financial liabilities at amortised cost	2 732 796	3 015 084
Annuity Loans			
Creditors	Financial liabilities at amortised cost	1 421 503	139 898
Trade creditors	Financial liabilities at amortised cost	57 713	230 114
Retentions	Financial liabilities at amortised cost	1 203 834	995 678
Staff leave	Financial liabilities at amortised cost	1 066 247	664 605
Other creditors			
Current Portion of Long-term Liabilities	Financial liabilities at amortised cost	285 162	164 633
Annuity Loans		6 767 255	5 210 212
Total Financial Liabilities			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

37. FINANCIAL INSTRUMENTS (continued)

Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instrument at year-end with variable interest rates are set out in 38.7 and 38.8 below.

The municipality's sensitivity to interest rates has decreased during the current period mainly due to the reduction in the balance of the variable rate debt instrument.

37 6 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 33 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.(cash)

The municipality has access to financing facilities, the total unused amount which is R 1,477,659 at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increasing tariffs and the increased use of unsecured bank loan facilities.

37 7 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at balance sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

	2009	2008
	R	R
Consumer Debtors	25 248 906	24 089 429
Other Debtors	319 243	153 529
Bank and Cash Balances	(518 341)	844 245
Maximum Credit and Interest Risk Exposure	25 049 808	25 087 203

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

40. CONTINGENT ASSET

The Municipality was not engaged in any transaction or event during the year under review giving rise to a contingent asset.

41. IN-KIND DONATION AND ASSISTANCE

The Municipality did not receive any in-kind donation and assistance during the year under review.

42. COMPARISON WITH THE BUDGET

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

43. PRIVATE PUBLIC PARTNERSHIPS

The Municipality has as yet not entered into a public-private partnership agreement with any private party.

44. EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2009.

45. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of these financial statements the municipality has not applied the following GRAP standards that have been issued but is not yet effective:

- GRAP 18 Segment Reporting
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 103 Heritage Assets

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all the GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

APPENDIX B

MTUBATUBA MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/Revaluation					Accumulated Depreciation				
	Opening Balance	Additions	Under Construction	Transfer in or Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Carrying Value
Land and Buildings										
Land	17 746 500	10 284		(1 510 284)	16 246 500				-	16 246 500
Buildings	3 473 998	368 737		309 702	4 152 436				-	4 152 436
	21 220 498	**379 021**	**-**	**(1 200 583)**	**20 398 936**	**-**	**-**	**-**	**-**	**20 398 936**
Infrastructure					-				-	-
Public toitlets	1 265 955	1 632 582		3 024 262	5 922 798			-31 103	31 103	5 891 695
Roads					-				-	-
Landfill Sites										
	1 265 955	**1 632 582**	**-**	**3 024 262**	**5 922 798**	**-**	**-**	**(31 103)**	**31 103**	**5 891 695**
Community Assets										
Libraries	759 067				759 067				-	759 067
Recreation Grounds	253 022	45 311			298 334				-	298 334
Civic Buildings	1 012 089			20 143	1 032 232				-	1 032 232
	2 024 178	**45 311**	**-**	**20 143**	**2 089 633**	**-**	**-**	**-**	**-**	**2 089 633**
Heritage Assets										
Historical Buildings	875 000				875 000				-	875 000
Painting and Art Galleries	1				1				-	1
	875 001	**-**	**-**	**-**	**875 001**	**-**	**-**	**-**	**-**	**875 001**
Total carried forward	**25 385 632**	**2 056 914**	**-**	**1 843 822**	**29 286 368**	**-**	**-**	**(31 103)**	**31 103**	**29 255 265**

APPENDIX C

MTUBATUBA MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENTAS AT 30 JUNE 2009

	Cost/Revaluation					Accumulated Depreciation				
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Carrying Value
Community services	5 747 381	625 682	-		6 373 062	-	-	-	-	6 373 062
Executive council	18 653 284	1 935 404	-		20 588 688	172 398	433 542	-	605 940	19 982 748
Finance and administration	1 552 557		-	25 447	1 527 111			-	-	1 527 111
Public safety	140 414	550 630	-		691 045	-	-	-	-	691 045
Public works	1 678 227	3 436 863	-		5 115 091	-	-	-	-	5 115 091
Waste Management	1 615 723		-	1 500 000	115 723	-	-	-	-	115 723
TOTAL	29 387 586	6 548 580	-	1 525 447	34 410 727	172 398	433 542	-	605 940	33 804 787

APPENDIX E (1)

MTUBATUBA MUNICIPALITY

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2009

	2009 Actual R	2009 Budget R	2009 Variance R	2009 Variance %	Explanation of Significant Variances greater than 10 % versus Budget
REVENUE					
Property rates	12 070 599	11 505 000	565 599	4.92	
Service charges	3 388 927	3 293 000	95 927	2.91	
Rental of facilities and equipment	276 059	255 000	21 059	8.26	
Interest earned - external investments	240 486	350 000	(109 514)	(31.29)	Under-estimated the potential to raise interest (cash flow problems)
Interest earned - outstanding debtors	143 975	1 400 000	(1 256 025)	(89.72)	During adjustment budget failed to estimate the interest that may be earned
Fines	243 145	202 000	41 145	20.37	This is if the court approves and if not could have even not realised 120%
Licences and permits	1 893 676	2 045 000	(151 324)	(7.40)	
Government grants and subsidies	12 016 150	10 309 719	1 706 431	16.55	
Other income	341 843	303 500	38 343	12.63	
Gains on disposal of property, plant and equipment	85 051	-	85 051	-	
Total Revenue	***30 699 911***	***29 663 219***	***1 036 692***	***3.49***	
EXPENDITURE					
Employee related costs	14 645 435	13 231 968	1 413 467	10.68	overtime issues
Remuneration of Councillors	1 830 696	1 829 906	790	0.04	
Depreciation	435 928	-	435 928	-	
Repairs and maintenance	2 872 687	2 722 700	149 987	5.51	
Interest paid on external borrowings	482 786	220 000	262 786	119.45	during adjustment lease transections were clasified under I/S
Contracted services	1 905 558	1 906 000	(442)	(0.02)	
Grants and subsidies paid	1 028 250	1 030 000	(1 750)	(0.17)	
General expenses- other	9 624 336	4 228 201	5 396 135	127.62	
Total Expenditure	***32 825 676***	***25 168 775***	***7 656 901***	***30.42***	
NET SURPLUS/(DEFICIT) FOR THE YEAR	***(2 125 764)***	***4 494 444***	***(6 620 209)***	***(147.30)***	

APPENDIX F

MTUBATUBA MUNICIPALITY

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF THE MFMA, 56 OF 2003

Grant and Subsidies Received

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly expenditure				Grants and Subsidies delayed / withheld				Reason for delay/ withholding of funds	Did your municipality comply with the grant conditions in terms of the grant framework in the latest Division of Revenue Act
		September	December	March	June	September	December	March	June	Septem	December	March	June		Yes / No
Disaster Claim Low Cost Housing	Privincial Treasury	-	-	-	-	-	-	-	-	-	-	-	-	None	Yes
M A P Control	Privincial Treasury	400 000	-	-	-	-	-	78 072	321 928	-	-	-	-	None	Yes
I D P Review	Privincial Treasury	-	-	10 000	-	-	59 155	-	36 789	-	-	-	-	None	Yes
P M S	Privincial Treasury	-	-	-	-	-	78 827	4 257	121 818	-	-	-	-	None	Yes
Corridor Development Fund	Privincial Treasury	3 000 000	-	-	-	-	-	-	-	-	-	-	-	None	Yes
Lums	Privincial Treasury	-	-	-	-	-	2 200	74 067	77 295	-	-	-	-	None	Yes
G I S	Privincial Treasury	-	-	-	-	56 295	6 580	-	7 125	-	-	-	-	None	Yes
Finance Management Grant	Privincial Treasury	1 250 000	-	-	-	116 879	25 739	100 412	630 828	-	-	-	-	None	Yes
MIG	Privincial Treasury	500 000	500 000	500 000	2 268 000	33 493	-	-	-	-	-	-	-	None	Yes
Library Service Fund	Privincial Treasury	-	-	-	-	-	10 400	-	129 161	-	-	-	-	None	Yes
MSIG- Ward Committees	Privincial Treasury	-	175 000	-	-	-	-	-	32 250	-	-	-	-	None	Yes
E - Learning	Privincial Treasury	-	-	-	-	15 945	-	-	-	-	-	-	-	None	Yes
Property Rates Act	Privincial Treasury	1 634 000	-	-	-	779 081	-	1 018 164	134 907	-	-	-	-	None	Yes
M F M A	Privincial Treasury	-	-	-	-	42 046	104 472	9 114	-	-	-	-	-	None	Yes
Municipal Development Planning	Privincial Treasury	-	-	-	-	-	-	-	72 085	-	-	-	-	None	Yes
Indigent Support	Privincial Treasury	-	-	-	-	-	-	-	8 576	-	-	-	-	None	Yes
LED Implementation Plan	Privincial Treasury	-	-	83 699	-	-	-	99 291	-	-	-	-	-	None	Yes
Gijima Tourism Strategy	Privincial Treasury	-	88 977	-	-	-	8 960	87 197	-	-	-	-	-	None	Yes
MSIG Grant	Privincial Treasury	-	-	-	-	-	668 523	10 329	-	-	-	-	-	None	Yes
Mtubatuba Library Assistant	Privincial Treasury	-	-	-	-	40 506	42 872	41 404	42 580	-	-	-	-	None	Yes

APPENDIX G

MTUBATUBA MUNICIPALITY

IMPLEMENTATION PLAN IN TERMS OF GENERAL NOTICE 522 OF 2007 (continued)

Financial reporting	Extent of exemption from standard		Milestones to be achieved to comply with exemption	Person	Estimated
Property, plant and equipment (GRAP 17)	Impairment of cash-generating assets *[paragraphs 63 and 75(e)(v) – (vi)]*	1)	Identify items of PPE that may have suffered impairment losses at year-end by issuing a memo to all departments requesting them to identify assets that: Are in a state of permanent damage at year-end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end); Are stolen at year-end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft); Are technologically obsolete at year-end (this can be facilitated by supplying departments with a FAR printout pertaining to major assets showing the remaining useful lives of assets - the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout); Have remained idle for a considerable period either prior to them being put into use at year-end or during their useful life. are not performing according to their specifications or according to industry accepted norms.	CFO	*June 2011*
		2)	Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.		
Impairment of Assets (IAS 36/AC 128)	Entire Standard	1)	An accounting policy on the impairment and associated losses of assets should be developed.	CFO	*June 2011*
		2)	Identify items of PPE that may have suffered impairment losses at year-end by issuing a memo to all departments requesting them to identify assets that: Are in a state of permanent damage at year-end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end); Are stolen at year-end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft); Are technologically obsolete at year-end (this can be facilitated by supplying departments with a FAR printout pertaining to major assets showing the remaining useful lives of assets - the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout); Have remained idle for a considerable period either prior to them being put into use at year-end or during their useful life. are not performing according to their specifications or according to industry accepted norms.		
		3)	Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.		

APPENDIX G

MTUBATUBA MUNICIPALITY

IMPLEMENTATION PLAN IN TERMS OF GENERAL NOTICE 522 OF 2007

Financial reporting	Extent of exemption from standard		Milestones to be achieved to comply with exemption	Person	Estimated
Employee Benefits (IAS 19/AC 116)	Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and the defined benefit obligation disclosed by narrative information. *[paragraphs 29, 48 – 119, 120A(c)-(q)]*		The Municipality has consulted with the KZN Provincial Treasury/National Treasury to deviate from the financial reporting standards (exemptions in terms of GN No 522 dated 29/06/2007) and have implemented the standard on Employee Benefits (IAS19 /AC 116) by 30 June 2007.	CFO	*June 2011*
Revenue (GAMAP 9)	Initial measurement of fair value discounting all future receipts using an imputed rate of interest. *[SAICA circular 09/06 and paragraph 12]*		In terms of GAMAP 9 revenue is measured at the fair value of the consideration received. In most cases the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is ***deferred***, for example where the entity provides an interest free credit period to the purchaser the fair value of the revenue must then be determined by discounting all future receipts by using an imputed rate of interest. The municipality does not envisage entering into transactions where an interest free credit period is provided to the purchaser of services or goods from the municipality and therefore it is highly unlikely that the municipality will be faced with this type of transaction.	CFO	*June 2011*
Financial Instruments: Recognition and Measurement (IAS 39/AC 133)	Initially measuring financial assets and financial liabilities at fair value. *[SAICA circular 09/06, paragraph 43, AG 79, AG 64 and AG 65 of IAS 39/ AC 133]*	 1) 2)	The municipality is of the opinion that it is, through its normal activities, complying with the requirements of the initial measurement of IAS 39. However in cases that might be identified where initial recognition is not done correctly, the following actions would be required. Initial recognition: IAS 39 requires recognition of a financial asset or a financial liability when, and only when, the entity becomes a party to the contractual provisions of the instrument, subject to the following provisions in respect of regular way purchases. Initial measurement: Initially, financial assets and liabilities should be measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss. <u>Action</u>: Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. IAS 39 provides a hierarchy to be used in **determining the fair value** for a financial instrument which are the following: Quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial instrument. If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. If there is no active market for an equity instrument and the range of reasonable fair values is significant and these estimates cannot be made reliably, then an entity must measure the equity instrument at cost less impairment.	CFO	*June 2011*

APPENDIX G

MTUBATUBA MUNICIPALITY

IMPLEMENTATION PLAN IN TERMS OF GENERAL NOTICE 522 OF 2007

Financial reporting	Extent of exemption from standard		Milestones to be achieved to comply with exemption	Person	Estimated
Financial Instruments: Disclosures (IFRS 7/AC 144)			**Income statement:** **Items of income, expense, gains, and losses,** with separate disclosure of gains and losses from financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition, held-to-maturity investments, loans and receivables, available-for-sale assets, financial liabilities measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition and financial liabilities measured at amortised cost. **Interest** income and interest expense for those financial instruments that are not measured at fair value through profit and **Fee** income and expense Amount of **impairment losses** on financial assets **Interest income** on **impairment financial assets** **Other disclosures:** Accounting policies for financial instruments. Note that disclosure of fair values is not required when the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables, or for instruments whose fair value cannot be measured reliably.	CFO	*June 2011*
Construction Contracts (IAS 11/AC 109)	Entire Standard	1) 2)	The municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. No actions for the application of IAS 11 are therefore necessary, as the municipality does not enter into transactions accounted for in terms of IAS 11.	CFO	*June 2011*
Business Combinations (IFRS 3/AC 140)	Entire Standard	1) 2)	The municipality has not undertaken any business combinations. No actions are therefore at this stage required to implement the standard.	CFO	*June 2011*
Accounting for Government Grants and disclosure of Government Assistance (IAS 20/AC 134)	Entire Standard excluding paragraph 24 and 26, replaced by paragraph 08 of GAMAP 12, paragraph 25 of GAMAP 17 and paragraphs 42 – 46 of GAMAP 9	1) 2) 3)	**Currently** all conditional capital grants received for the purchase of PPE are accounted for in terms of the NT GRAP implementation guidelines dated June 2005 and also GAMAP 9.42 to 46. On receipt of a conditional capital government grant the amount is banked and reflected as a current liability called Unspent Conditional Grants and Receipts. Once the amount is spent in accordance with the grant conditions a transfer is made from the current liability to the Statement of Financial Performance equal to the amount that has been spent during the financial year in accordance with the grant conditions. Thereafter an equal amount is transferred from the Accumulated Surplus to the Government Grant Reserve (GGR) on the statement of Changes in Net Assets. Annually an amount is transferred from this reserve to accumulated surplus equal to the amount of depreciation on assets funded from government grants. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/ (deficit). According to **IAS 20**, Government grants used to finance assets, should be recognised either as a reduction in the cost of the asset or deferred income that will be amortised as the related asset is depreciated.	CFO	*June 2011*

APPENDIX G

MTUBATUBA MUNICIPALITY

IMPLEMENTATION PLAN IN TERMS OF GENERAL NOTICE 522 OF 2007

Financial reporting	Extent of exemption from standard		Milestones to be achieved to comply with exemption	Person	Estimated
SAICA circular 9/2006	The requirements of SAICA circular 9/06 may not have been considered by the municipality when recognising revenue income and costs of inventories.		In terms of SAICA Circular 9/2006, settlement discounts receivable have to be estimated at date of purchase and the cost of the inventory purchased should be reduced accordingly.	CFO	*June 2011*
		1)	A list of all purchases of inventories should be prepared, where the purchase has been paid for cash on delivery, and where cash discounts have been received.		
		2)	The municipality must ensure that these cash discounts have been deducted from the cost price of the inventories concerned.		
		3)	If these cash discounts have been accounted for as other income ensure that the other income is reversed to cost of inventories in respect of inventories that are still on hand and to inventories expensed in respect of inventories that have been sold or utilised by the municipality.		
		4)	A list should be prepared of all settlement discounts received for prompt settlement of creditors in respect of inventories purchased.		
		5)	The municipality must ensure that these settlement discounts have been deducted from the cost price of the inventories concerned.		
		6)	If these settlement discounts have been accounted for as other income ensure that the other income is reversed to cost of inventories in respect of inventories that are still on hand and to inventories expensed in respect of inventories that have been sold or utilised by the municipality.		

APPENDIX H

MTUBATUBA MUNICIPALITY

ADJUSTMENTS TO ACHIEVE COMPLIANCE WITH THE EXEMPTED STANDARDS IN TERMS OF GENERAL NOTICE 522 OF 2007

Std. no.	Standard title	GRAP, GAMAP and/or SA GAAP requirement(s) exempted in terms of General notice 522 of 2007.	Exemption Adopted Y/N	Description of implementation plans that still need to be implemented to achieve full compliance with exempted standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted standards
GAMAP 09	Revenue	Initial measurement of fair value; discounting all future receipts using an imputed rate of return (GAMAP 9.12 and SAICA circular 9/06)	Y	In terms of GAMAP 9 revenue is measured at the fair value of the consideration received. In most cases the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is **deferred**, for example where the entity provides an interest free credit period to the purchaser the fair value of the revenue must then be determined by discounting all future receipts by using an imputed rate of interest. The municipality does not envisage entering into transactions where an interest free credit period is provided to the purchaser of services or goods from the municipality and therefore it is highly unlikely that the municipality will be faced with this type of transaction.	No adjustments to the AFS are required.
GAMAP 12	Inventories	The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP17.	N	The municipality accounts for its immovable capital assets inventory in accordance with the accounting treatment and disclosure requirements as set out in GAMAP 12.	No adjustments to the AFS are required.
		The entire standard as far as it relates to water stock that was not purchased by the municipality.	N	The municipality accounts for its water inventories in accordance with the accounting treatment and disclosure requirements as set out in GAMAP 12.	No adjustments to the AFS are required.
GAMAP 17	PPE	Review of depreciation method applied to PPE recognised in the annual financial statements(GAMAP 17.62, 77)	Y	1) CFO to issue a memo to all departmental managers at year end to request them to ensure that the depreciation method used to depreciate all items of PPE as reflected as being under their control per the FAR is realistic. 2) CFO to review the depreciation method used to depreciate different classes of assets annually to assess its applicability for each class of asset. 3) Departmental managers should inform the manager responsible for assets of items of PPE with remaining useful lives shorter or longer than those reflected on the FAR at year end. 4) Pass necessary accounting entries and also do necessary disclosure of the change in estimate.	**The following adjustments will need to be made to the AFS if the review of depreciation methods of PPE results in a change in estimate.** 1) The depreciation charge for the year in which the change in estimate takes place as well as for all other years of the remaining useful life of the asset will be adjusted. This change in accounting treatment will therefore take place prospectively. 2) A note on the change in estimate will be disclosed if the change in estimate is material.

APPENDIX H

MTUBATUBA MUNICIPALITY

ADJUSTMENTS TO ACHIEVE COMPLIANCE WITH THE EXEMPTED STANDARDS IN TERMS OF GENERAL NOTICE 522 OF 2007

Std. no.	Standard title	GRAP, GAMAP and/or SA GAAP requirement(s) exempted in terms of General notice 522 of 2007.	Exemption Adopted Y/N	Description of implementation plans that still need to be implemented to achieve full compliance with exempted standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted standards
				Ø Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life. Ø are not performing according to their specifications or according to industry accepted norms. Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.	4) The impairment loss itself should be reflected in the notes to the Statement of Financial Performance, if material. 5) All disclosure requirements as required by IAS 36.
IAS 11 AC 109	Construction contracts	Entire standard	N	1) The municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. Therefore it is estimated that the application of IAS 11 by the municipality will not be necessary, as the municipality does not enter into transactions accounted for in terms of IAS 11.	1) The municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. Therefore it is estimated that the application of IAS 11 by the municipality will not be necessary, as the municipality does not enter into transactions accounted for in terms of IAS 11.
IAS 14 AC 115	Segment reporting	Entire standard	Y	1) Obtain an understanding of the definitions of business segments and geographical segments as set out in IAS 14. 2) Determine the business and geographical segments of the municipality. 3) Decide on the primary and secondary reporting formats for the entity. Therefore a decision must be made whether business is primary and geographical secondary or vice versa. 4) Change the chart of accounts and accounting software package to ensure that the segmental revenue, expenses, results, assets and liabilities can be accounted for and presented in the AFS according to the primary and secondary reporting formats.	**The AFS will have to be adjusted to ensure that the disclosure requirements of IAS 14.51 to .67 relating to segment information are met.** The primary reporting format requires inter alia, disclosure of: 1) Segment revenue for every reportable segment, 2) Segment results for every reportable segment. 3) Segment assets for every reportable segment, 4) The total cost incurred during the period to acquire reportable segment long term assets.

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ADJUSTMENTS TO ACHIEVE COMPLIANCE WITH THE EXEMPTED STANDARDS IN TERMS OF GENERAL NOTICE 522 OF 2007

Std. no.	Standard title	GRAP, GAMAP and/or SA GAAP requirement(s) exempted in terms of General notice 522 of 2007.	Exemption Adopted Y/N	Description of implementation plans that still need to be implemented to achieve full compliance with exempted standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted standards
				Ø are not performing according to their specifications or according to industry accepted norms. 2) Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.	5) All disclosure requirements as required by IAS 36.
IAS 38 (AC 129)	Intangible assets	The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32) and all other costs are expensed	N	The municipality accounts for its Intangible assets in accordance with the accounting treatment and disclosure requirements as set out in IAS 38.	No adjustments to the AFS are required.
IAS 39 (AC 133)	Financial instruments: recognition and measurement	Initially measuring financial assets and liabilities at fair value(IAS 39.43, AG79, AG64 – AG65 and SAICA circular 9/06)	N	All the applicable sections regarding the accounting recognition and measurement requirements relating to Financial Instruments as set out in IAS 39 are adhered to by the municipality.	No adjustments will need to be made to the AFS as the municipality already fully complies with the requirements of IAS39.
IAS 40 (AC 135)	Investment property	The entire standard to the extent that the property is accounted for in terms of GAMAP 17	N	The municipality accounts for its Investment property in accordance with the accounting treatment and disclosure requirements as set out in IAS 40.	No adjustments to the AFS are required.
		Disclosure of the fair value of investment property if the cost model is applied and where the municipality has recognised the investment property in terms of this standard (IAS 40.79(e)(i) – (iii))	Y	1) Ensure that, even if IP is reflected at cost procedures are put in place to obtain the Fair Value of IP at each Balance Sheet date for inclusion in the notes to the AFS.	1) The disclosure notes relating to IP would provide an indication of the Fair Value of IP which is carried at cost price less accumulated depreciation on the face of the Statement of Financial Position.
IFRS 3 (AC 140)	Business combinations	Entire standard	N	1) It is highly likely that the most relevant section of IAS 40 to the municipality is the accounting treatment of goodwill. 2) Goodwill is measured and accounted for by the municipality in accordance with the requirements of IFRS 3.	1) No adjustments will need to be made to the AFS as the municipality already fully complies with the relevant requirements of IFRS 3.
IFRS 5 (AC 142)	Non-current assets held for sale and discontinued operations	Classification, measurement and disclosure of non-current assets held for sale (IFRS 5.6 – 29 (in so far as it relates to non-current assets held for sale) and 38 – 42)	N	The municipality accounts for its Non-current assets held-for-sale in accordance with the accounting treatment and disclosure requirements as set out in IFRS 5.	No adjustments to the AFS are required.
IFRS 7 (AC 144)	Financial instruments: disclosures	Entire standard to be replaced by IAS 32 (AC 125) issued August 2006 and effective for financial statements covering periods beginning on or after 1 January 1998	N	All the applicable sections regarding the disclosure requirements relating to Financial Instruments as set out in IFRS 7 are adhered to by the municipality.	No adjustments will need to be made to the AFS as the municipality already fully complies with the relevant requirements of IFRS 7.